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Message Text

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43
ACTION EA-10

INFO OCT-01 ISO-00 AGR-05 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 DODE-00 PA-01 USIA-06 PRS-01 IO-10 H-02

/099 W
---------- 073592
R 280757Z APR 75
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 9725
INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SEOUL 2957

HONG KONG FOR REGFINATT

E.O. 11652: GDS
TAGS: EFIN, ETRD, KS
SUBJECT: RECENT BALANCE OF PAYMENTS DEVELOPMENTS

REF: A. SEOUL 2528; B. SEOUL 2894 (NOTAL); C. SEOUL 2755
D. SEOUL 2939; E. STATE 095757

SUMMARY: ROKG HAS TAKEN NUMBER OF RECENT STEPS TO TRY TO IMPROVE BALANCE OF PAYMENTS SITUATION, INCLUDING HIGH LEVEL VISITS TO MIDDLE EAST AND IMPOSITION OF HIGHER IMPORT DEPOSITS. EMBASSY HAS LEARNED THAT OUTSTANDING SHORT-TERM FOREIGN BANK CREDITS TO KOREA ON MARCH 31 EQUALLED APPROXIMATELY 85 PERCENT OF TOTAL SUCH LINDS AVAILABLE. SERVICE ON LONG-TERM DEBT IN 1975 WILL PROBABLY BE $825 MILLION AND INTEREST ON SHORT-TERM CREDITS WILL PROBABLY COST ANOTHER $200 MILLION. END SUMMARY.

1. THIS MESSAGE DESCRIBES RECENO ROKG STEPS TO IMPROVE FOREIGN EXCHANGE SITUATION PLUS CERTAIN BOP AND FX DATA CONFIDENTIAL

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OBTAINED SINCE REF A OF APRIL 15.

2. IN MOST DRAMATIC MOVE, PRIME MINISTER KIM JONGNPIL WILL VISIT SAUDI ARABIA AND CALL ON KING KHALID ON MAY 4,

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IN PART TO FOLLOW UP EARLIER OFFICIAL TALKS RE CASH
LOAN, DEFERRED OIL PAYMENTS, CONFTRUCTION PROJECTS AND
TECHNICAL ASSISTANCE (REF B). IN ADDITION, KOREA DEVELOPMENT
BANK GOVERNOR KIM WON GIE WILL VISIT VARIOUS EUROPEAN AND
MIDDLE EASTERN CAPITALS IN NEXT TWO WEEKS IN ATTEMPT SECURE
ADDITIONAL LINDS OF SHORT-TERM CREDITS AND SELL KDB BONDS.

3. TO SAVE FX AND FREE DOMESTIC CREDIT FOR OTHER USES,
WON BANK LOANS FOR CONVERSION INTO FX FOR PURCHASE OF
EQUIPMENT IMPORTS HAVE BEEN PROHIBITED, BASED ON BELIEF THAT
REDUCED DEMAND FOR SUCH IMPORTS THIS YEAR CAN BE FINANCED
ENTIRELY BY FOREIGN CREDITS, INCLUDING RECENT IBRD PROGRAM AND
DEVELOPMENT BANK LOANS. ROKG HAS ALSO REQUESTED ALL
MINISTRIES TO REDUCE OR DEFER FX EXPENDITURES.

4. MINISTRY OF FINANCE HAS CONSULTED WITH OIL COMPANIES RE
CRUDE OIL IMPORT FINANCING PROBLEM REPORTED REF A AND HAS
GIVEN ASSURANCES THAT, GIVEN ADVANCE NOTICE OF NEEDS, ADEQUATE
IMPORT CREDITS WILL BE AVAILABLE THROUGH LOCAL AND BRANCH
BANKS, THOUGH PERHAPS ON MULTI-BANK BASIS INVOLVING HIGHER
FEES. ROLLOVER OF PRESENT OUTSTANDING CREDITS WILL PROVIDE
BULK OF FINANCING.

5. PRINCIPAL RECENT STEP TO IMPROVE BOP, HAS BEEN INSTITUTION
OF HIGHER IMPORT DEPOSITS AND INCREASED EXPORT INCENTIVES
REPORTED REF C. SOME ROKG ECONOMISTS NOW ESTIMATE 1975
CURRENT ACCOUNT DEFICIT AT AROUND $2.0 BILLION ON BASIS $300
MILLION IMPORT REDUCTION RESULTING FROM EQUIVALENT INCREASES
IN IMPORT DEPOSITS. THIS SEEMS OPTIMISTIC SINCE
EFFECTS OF HIGHER DEPOSITS ON PRICES AND CONSUMPTION WILL BE
RELATIVELY SMALL, AND LIQUIDITY SITUATION NOT SUFFICIENTLY
TIGHT TO FORCE EQUIVALENT REDUCTIONS IN IMPORT ORDERS.
(DEPOSITS NOT REQUIRED ON IMPORTS FOR EXPORT USE.) RECENT
25 PERCENT AVERAGE INCREASE IN GOVERNMENT GRAIN RELEASE
PRICES (REF D) MAY SAVE ON GRAIN IMPORTS LATER IN YEAR BUT
THIS DEPENDENT ON UNCERTAIN CONSUMER REACTION, WAGE
INCREASES AND NEW CROPS. WE FEEL BOP DEFICIT OF ABOUT $2.4
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BILLION IS STILL LIKELY UNLESS FOREIGN EXCHANGE SHORTAGE
FORCES MORE SEVERE REDUCTION IN IMPORTS.

6. WE HAVE LEARNDD CONFIDENTIALLY THAT FOREIGN SHORT-
TERM BANK CREDITS TO KOREA TOTALLED $1.568 BILLION ON
MARCH 31 AND THAT TOTAL ARRANGED LINDS OF CREDIT APPROXIMATED
$1.8 BILLION. CREDITS UTILIZED WERE UP $534 MILLION FROM
$1.034 BILLION ON DECEMBER 31. SINCE THAT RATE OF INCREASE
COULD BE SUSTAINED ONLY FOR APPROXIMATELY ONE MORE MONTH,
SHIFT TO USE OF LONG-TERM U.S. BANK LOAN AND GREATERNUSE OF
SHORT-TERM SUPPLIER CREDITS (WHICH REPORTEDLY TOTALLED
$138 MILLION ON MARCH 31) HAS BEEN PUSHED IN APRIL, IN
ADDITION TO MEASURES DESCRIBED AABOVE. SHORT-TERM BANK CREDITS

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ON MARCH 31 CONSISTED OF (A) IMPORT REFINANCE OF $918
MILLION, UP FROM $650 MILLION ON DECEMBER 31, AND (B)
CREDITS TO TRADERS, $650 MILLION, UP FROM $384 MILLION.

7. HEAVY SHORT-TERM BORROWING (TOTALLING $1.7 BILLION
FOR BANK AND SUPPLIER CREDITS ON MARCH 31) WILL PROBABLY
ADD ABOUT $200 MILLION IN 1975 TO AN INOEREST BURDEN WHICH WE
ESTIMJTE AT ABOUT $350 MILLION FOR LONG-TERM DEBT ONLY.
REPAYMENTS ON MEDIUM- AND LONG-TERM DEBT WILL PROBABLY TOTAL
ABOUT $475 MILLION. THUS WE ESTIMATE DEBT SERVICE ON DEBT
OF ONE YEAR AND OVER AT ABOUT $825 MILLION IN 1975, UP FROM
$667 MILLION IN 1974. IF EXPORT EARNINGS ARE NEARLY CONSTANT
IN 1975, AS EMBASSY EXPECTS, DEBT SERVICE RATIO WILL RISE
FROM 12.4 TO 15.2 PERCENT OF EXPORTS OF GOODS AND SERVICES.
RESUMED GROWTH OF EXPORTS IN 1976 SHOULD PREVENT FURTHER
INCREASE IN THIS RATIO, HOWEVER.

8. APPRECIATE RESPONSE IN REF E RE BOP ASPECTS
INVOLVING U.S. ACTION.
SNEIDER

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